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TO RUEHC/SECSTATE WASHDC IMMEDIATE 1450
RUEATRS/DEPT OF TREASURY WASHINGTON DC 0887
INFO RUCNAFG/AFGHANISTAN COLLECTIVE

UNCLAS SECTION 01 OF 02 KABUL 002788

SENSITIVE
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DEPT FOR SRAP, SCA/FO, SCA/RA, SCA/A AND EEB/IFD/OMA
DEPT PASS AID/ASIA BUREAU
DEPT PASS USTR FOR DELANEY AND DEANGELIS
DEPT PASS OPIC FOR ZAHNISER
TREASURY FOR ABAUKOL, MNUGENT, AND LMCDONALD

E.O. 12958 N/A

TAGS: EFIN ECON EAID PREL PGOV AF

SUBJECT: MOF Zakhilwal Letter to IMF Over the Fund's Decision to Cancel Delegation's Visit

¶1. (SBU) Summary: Following the International Monetary Fund's (IMF) surprise decision to cancel its September visit to Afghanistan to conduct the 6th review of its Poverty Reduction and Growth Facility (PRGF) and proceed instead via video teleconference, Afghanistan's Minister of Finance Dr. Omar Zakhilwal sent a protest letter to Mr. Murilo Portugal, Deputy Managing Director of the IMF dated September 12, 2009. We agree the IMF's decision is ill advised and sends an unhelpful message, particularly given that the U.S. is the IMF's largest stakeholder and wants to encourage Afghanistan's continued progress under the PRGF. Embassy believes it is important Washington agencies register serious concern over this development with the Fund with the aim of reviewing the IMF's decision. End Summary.

¶2. (SBU) Afghanistan's Finance Minister Omar Zakhilwal wrote IMF Deputy Managing Director Murilo Portugal expressing his deep disappointment over the IMF's decision to cancel the September review of the Poverty Reduction and Growth Facility (PRGF) that was supposed to take place in September and conduct the review instead by video conference. Zakhilwal copied Ambassador Eikenberry and Ambassador Holbrooke on the letter as well as British Ambassador Sedwill and a number of senior IMF and World Bank officials.

¶3. (U) Text of the letter is as follows:

Dear Mr. Portugal:

We understand that the joint PRGF/HIPC mission to Kabul in early September has been cancelled and instead, some discussions between the IMF and the Government of Afghanistan will be held through videoconferences over the next few days.

Firstly, I would like to express our deep appreciation to the IMF for all the support it has given to Afghanistan. As we all recognize, Afghanistan's Poverty Reduction and Growth Facility (PRGF) program is a crucial driver for economic reform in Afghanistan -- indeed, its launch in 2006 stemmed from the strong commitment of the key IMF shareholders to support fiscal and macroeconomic stability in Afghanistan. Similarly, meeting the Heavily Indebted Poor Countries (HIPC) reform program, also launched in 2006, is a key step not only towards clearing the Government's total debt obligations of USD 11.2b, but it will also demonstrate the Government's dedication to implement important social and economic reforms. Like the PRGF, HIPC is strongly supported by key IMF shareholders.

IMF missions to and in Afghanistan serve a range of very important purposes: we undertake dialogue on needed reforms, they offer valuable advice, help build our capacity, effectively monitor the PRGF, and helpfully apply pressure for timely implementation of our commitments. We greatly value this role. As such, these missions concern not only the Ministry of Finance and the Central Bank, but a

range of key counterparts such as other Government ministries and agencies (e.g., DABMS/DABS, FLGE, the Civil Service Commission, and CAO), and donors. I would note that conducting missions in a third country or via videoconferences does not approximate the role of a mission in Kabul.

The September mission was particularly important. Given the PRGF is scheduled to end in March 2010, it is necessary to bring both the PRGF 6th review and HIPC to closure as soon as possible. Despite a challenging period over the elections, I and my cabinet colleagues have worked very hard to ensure this. We were also keen to discuss future reform benchmarks during this mission for the final, 7th PRGF review, to ensure its timely success.

Hence, the cancellation of this mission is an enormous disappointment to the Government of Afghanistan, and as we understand, also for key donors. Unfortunately, the effectiveness of the mission is greatly reduced by not holding it here in Kabul with all key stakeholders present. It is also a concern if the final decisions might need to be postponed until late October. To our great alarm, we have not been informed of any plans to review HIPC. Hence, we would like to receive your firm assurance that the necessary discussions on the 6th PRGF review and HIPC will be concluded as planned, including decisions reached by the end of ¶2009. In the future, we would also be grateful if key decisions on missions that affect both parties be made through close consultation between the Government and the IMF.

I have requested a meeting with you during the IMF and World Bank Annual Meetings in early October. I propose that we use this opportunity to discuss the role of the IMF in Afghanistan going forward. Economic reforms need to continue. Given the important

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role the PRGF plays in Afghanistan and the forthcoming discussions on a possible new IMF program, I hope that the IMF continues its strong commitment to Afghanistan and its development, through practical and active involvement with the new Government in its fiscal and monetary reforms.

Many thanks for your consideration for these concerns, and your continued support to Afghanistan.

Sincerely,
(Signed)
H.E. Dr. Omar Zakhilwal
Minister of Finance
Ministry of Finance
Islamic Republic of Afghanistan

¶4. (SBU) Action Request: The decision is the second time this year that the IMF has cancelled an on-site review, resulting in increased confusion and disappointment among key Afghan reform leaders. Embassy understands the on-site review was cancelled, in part, due to concerns regarding the security situation in Kabul. However, we note the World Bank is continuing its work in Kabul without delay. Like the Minister, Embassy does not think a review via teleconference is sufficient for reviewing Afghanistan and engaging donors on-the-ground. Embassy requests Washington register serious concern through the U.S. IMF Executive Director's Office and through the office of the Special Representative to Afghanistan and Pakistan with the aim of reviewing the IMF's decisions not to travel to Kabul.

EIKENBERRY